Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Richard Keery, Investment Manager, Ext: 77398

Item 4(d)

5th September 2018

Responsible Investment – Activity to 30th June 2018

Purpose of Report:

To advise the committee of activity during the quarter in respect of the Fund's responsible investment policy.

Recommendation:

The committee is asked **to NOTE** the contents of this report.

Ward No(s): Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

1 Background

The Fund became a signatory to the United Nations Principles for Responsible Investment in 2008, and has adopted the principles as its responsible investment policy. The principles are set out in full in Appendix 1 together with a summary of the Fund's strategy for applying them in practice.

2 Activity: Quarter 2 2018

A summary of activity against each of the principles is provided below.

2.1 We will incorporate Environmental, Social and Governance (ESG) issues into investment analysis and decision-making processes

2.1.1 Investment Managers

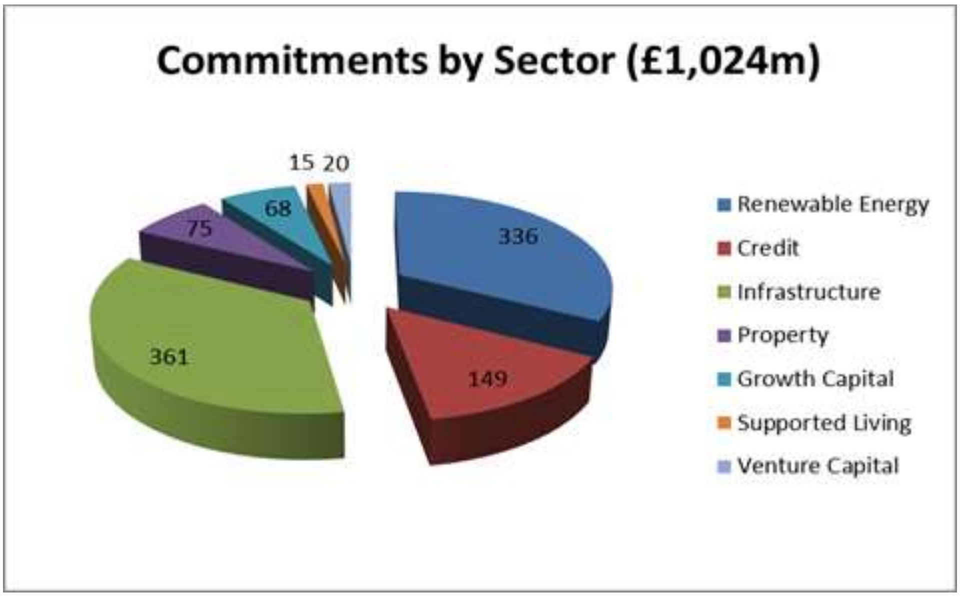
The majority of the Fund's investment analysis and decision-making is outsourced to external investment managers. The managers all have different investment philosophies and processes and address ESG issues in different ways. ESG risks and opportunities are considered as part of company analysis, and managers engage regularly with portfolio companies on these issues. The Funds external investment managers are assisted by **Global Engagement Services (GES)** who co-ordinate engagement efforts and provide detailed research to focus the collaborative effort of the managers.

At its meeting on 18th May 2018 the Strathclyde Pension Fund Board discussed concerns regarding **DXC Technology** (Legal & General) and **Hewlett Packard Enterprise** (Oldfield Partners). Correspondence had been received from constituents regarding DXC Technology and Hewlett Packard Enterprise involvement in Israel's occupation of Palestinian Territories and whether such activities were compatible with Strathclyde Pension Fund's responsible investment policy. It was agreed that a report would be obtained from the Fund's engagement partner, **GES**, on the full extent of these companies' involvement in Israel's occupation of Palestinian Territories and whether such activities were compatible with Strathclyde Pension Fund's responsible investment policy. In the report provided to the Board GES did not identify explicit violations of human rights or international humanitarian law for either company. GES also determined that there were no current violations under the Fund's responsible investing policy. GES advised that information was lacking in several core areas and that these will be kept under observation by GES for the next two years unless satisfactory answers are obtained prior to that date. GES also suggest a number of courses of action which companies, investors and asset managers may consider to avoid human rights violations in this context. The Fund will consider these further in conjunction with the relevant investment managers with a view to engagement with the companies.

Executive Summary of the report is included at Appendix 2

2.1.2 Direct Investment Portfolio (DIP)

The SPF Committee and officers are more directly involved in analysis and decision making in respect of the Fund's Direct Investment Portfolio (DIP). Strong investment fundamentals in proposals for DIP are usually enhanced by a positive local, economic or ESG impact which adds value to the investment rationale. Total commitments by DIP as at 30th June 2018 are summarised as follows.



Renewable energy investments span a number of UK sub-sectors including onshore and offshore wind, solar, small scale hydro and community power schemes. Credit allocations are primarily to UK small company debt financing. The property allocation is to the Fund's own Clydebuilt Portfolio which invests within the Strathclyde area.

Progress of DIP investments during the quarter is summarised in Appendix 3.

2.2 We will be active owners and incorporate ESG issues into our ownership policies and practices

Main activities in this area are:

- voting at company AGMs and EGMs in respect of listed equity holdings.
- engagement with portfolio companies and
- direct oversight of companies within the DIP and private equity portfolios.

2.2.1 Voting

The Fund ensures that the votes attaching to its holdings in all quoted companies are exercised whenever practical. The Fund's voting policy is exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance and Stewardship Codes.

Managers' voting activity during the quarter to 30th June 2018 is summarised as follows.

Voting activity to 30th June 2018		
		(%)
Total meetings	**3,542**	
Votes for	*39,616*	*85*
Votes against	*6,270*	*13*
Abstentions	*633*	*1*
Not voted	*325*	*1*
No. of Resolutions	**46,844**	**100**

Most resolutions involve routine matters of business and the expectation would be for managers to vote for the majority of proposals.

Whilst the overall incidence of votes against may appear low it is carefully targeted. **Legal & General** report that they voted against:

- at least one resolution at 94% of US company meetings.
- 73% of all remuneration resolutions in Europe.
- all Asia-Pacific non-salary compensation resolutions.

Further details of voting activity are set out in Appendix 4.

2.2.2 Engagement

Engagement highlights during the quarter include the following.

- **Baillie Gifford** reported engagement with South African based multinational internet and media group **Naspers** to discuss corporate governance issues and executive remuneration

- **Legal and General** conducted 35 company meetings during the quarter. Environmental issues were discussed at 17 meetings and Governance topics including remuneration issues were discussed at 28 of those meetings. The environmental issue of disposable coffee cups at Costa Coffee was the focus of engagement with **Whitbread**. Engagement with French food retailer **Carrefour SA** focused on succession process of the Chairman position and new remuneration structures. And Legal and General engaged with **Anadarko Petroleum** regarding a shareholder proposal asking the company to report on the long-term impacts on their resource portfolio and business strategy of limiting global warming to no more than two degrees Celsius.

- The Fund's engagement overlay provider, **GES**, provided engagement reports on a range of recent company engagements including with **HSBC Holdings** (Baillie Gifford) regarding financial crime; **Phillips 66** and **Enbridge Energy Partners** (Legal & General) regarding the Dakota Access Pipeline project and the rights of indigenous peoples.

Further details of engagement activity are set out in Appendix 5.

2.3 We will seek appropriate disclosure on ESG issues by the entities in which we invest

Improved disclosure is a recurring theme of engagements with portfolio companies by investment managers, GES and various investor forums in which the Fund participates.

- **Baillie Gifford** met with the CEO of **Ryanair** to discuss how the business has been progressing since the flight cancellations last year and met the head of sustainability at **Brambles** to discuss the company's approach to sustainability in its supply-chain logistics business.

- **GES** provided a report on social media and social networking service company **Facebook** regarding data security. (Veritas, Legal & General) and a report on pollution incidents at multinational chemical company **DowDuPont Inc**. (Lazard, Legal & General).

Further details are set out in Appendix 6.

2.4 We will promote acceptance and implementation of the Principles within the investment industry

All of the Fund's investment managers are signatories to the principles. Many managers within the Direct Investment Portfolio are also signatories. However for some this will be less appropriate due to the specialised nature of their activities. The Fund strongly encourages managers to become signatories and to adhere to the principles.

Further details are set out in Appendix 7.

2.5 We will work together to enhance our effectiveness in implementing the Principles

The Fund seeks to improve the effectiveness of company engagement and voting by acting collectively with other like-minded investors. To this end the Fund participates in a variety of industry initiatives and forums. This also involves collaborative lobbying on government and industry policy and regulations regarding ESG issues. The Fund is represented across a range of initiatives working with institutional investors, charities and interest groups on themes as diverse as renewable energy, animal welfare and child labour.

Further details of these collaborative initiatives are set out in Appendix 8.

2.6 We will report on our activities and progress towards implementing the Principles

The quarterly committee report on responsible investment activity is available on the Fund's website at www.spfo.org.uk.

- Legal & General, Baillie Gifford, JP Morgan, Henderson, Veritas and Oldfield Partners provided reports on ESG engagement during the quarter. GES provided a full engagement report for the quarter and an engagement progress update on individual portfolio companies.

- The responsible investment charity **ShareAction** provided an update of progress on the **Investor Decarbonisation Initiative** and the **Living Wage** collaborative initiative.

- The **Institutional Investors Group on Climate Change** (IIGCC) published their 2018 Global Investor Statement to Governments on Climate Change.

- The Fund co-signed a statement marking the five-year anniversary of the collapse of the Rana Plaza Building in Bangladesh and the success of the subsequent **Bangladesh Accord on Fire and Building Safety**

Details of activity during the quarter are set out in Appendix 9.

3 Other Developments

Appendix 10 sets out details of other ESG developments during the quarter.

4 Conclusion

The activity reported above confirms further progress and a high level of compliance with the Fund's policy on responsible investment.

5 Policy and Resource Implications

Resource Implications:

Financial:	No issues
Legal:	No issues
Personnel:	No issues
Procurement:	

Council Strategic Plan:	Not applicable

Equality Impacts:

Does the proposal support the Council's Equality Outcomes 2017-22	Equalities issues are a frequent subject of engagement with investment managers and portfolio companies as part of the Responsible Investment strategy.
What are the potential equality impacts as a result of this report?	Recent engagement on equalities issues is described in this report.

Sustainability Impacts:

Environmental:	Recognising environmental, social and governance issues is fundamental to the Fund's responsible investment policy.
Social:	Recognising environmental, social and governance issues is fundamental to the Fund's responsible investment policy.
Economic:	Recognising environmental, social and governance issues is fundamental to the Fund's responsible investment policy.

Privacy and Data Protection impacts: None.

6 Recommendation

The Committee is asked to NOTE the contents of this report.

Appendices	
1.	**Responsible investment policy and strategy**
2.	**GES Report: DXC Technology and HPE**
3.	**DIP activity: quarter to 30th June 2017**
4.	**Voting activity: quarter to 30th June 2018**
5.	**Engagement activity: quarter to 30th June 2018**
6.	**Disclosure on ESG Issues: quarter to 30th June 2018**
7.	**UNPRI signatories**
8.	**Collaborative initiatives**
9.	**Collaborative initiatives: activity during the quarter**
10.	**Other developments during the quarter**

Appendix 1

Responsible Investment Policy and Strategy

Policy

The Fund has adopted the United Nations Principles for Responsible Investment as its investment policy. The text of the principles is set out below.

UN Principles for Responsible Investment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.

2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4. We will promote acceptance and implementation of the Principles within the investment industry.

5. We will work together to enhance our effectiveness in implementing the Principles.

6. We will each report on our activities and progress towards implementing the Principles

We encourage other investors to adopt the Principles.

Strategy

Responsible Investment activity is carried out by:

- the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of ESG issues into their investment analysis and expected to engage on these issues with the companies in which they invest;
- Global Engagement Services (GES), a specialist responsible investment engagement overlay provider appointed by the Fund in 2012 and again in 2014; and
- the Fund itself through direct engagement, and collaboration with other investors including the Local Authority Pension Fund Forum (LAPFF), ShareAction, Institutional Investor Group on Climate Change (IIGCC), Carbon Action and other ad hoc alliances.

A quarterly committee report on responsible investment activity is available on the Fund's website at: *www.spfo.org.uk*

GES Report: DXC Technology and HPE

OCCUPIED PALESTINIAN TERRITORIES
STRATHCLYDE PENSION FUND SPECIAL REPORT

EXECUTIVE SUMMARY

August 2018

Justyna Klaczany, Paulina Segreto, Cathrine Steenstrup

G·E·S®

Appendix 2

GES Report: DXC Technology and HPE

Executive Summary

In accordance with the board meeting on 18 May 2018, the Strathclyde Pension Fund ("Strathclyde") has requested a report on the full extent of the involvement of DXC Technology ("DXC") and Hewlett Packard Enterprise ("HPE") in the Occupied Palestinian Territories ("OPT") and compatibility with Strathclyde's responsible investment policy. The inquiry largely derives from a report published by NGO Who Profits on the activities of these two companies in the OPT.

GES has conducted research on the points raised by stakeholders and has furthermore investigated the status of previously reported activities of Hewlett Packard ("HP") as the predecessor of HPE and DXC, as well as DXC subsidiaries EntServ Israel and Entserv OMS. HPE and DXC operate in controversial areas with a high risk potential for violations of international humanitarian and human rights law. Discrepancies may also exist between international and Israeli laws, rooted in conflicting views of the OPT as occupied vs. disputed territory. For purposes of definition, the OPT refers to West Bank, Gaza and East Jerusalem.

In adherence to international human rights and humanitarian law, the GES position in the OPT emphasises issues related to infrastructure within settlements, the separation barrier, checkpoints and natural resources. GES will consider issues tied to Israeli authorities, such as the military or the prison system only insofar as they fall within this scope. This stance will differ from stakeholders with a more encompassing perspective on human rights violations.

GES has not identified an explicit violation of international human rights and humanitarian law as defined under the scope of the GES position paper on the OPT. However, our research has revealed a lack of information in significant areas of activity, including some that initially seemed to have been resolved. In particular, GES recommends ongoing monitoring of the Basel system, the construction tracking system and the military. GES will maintain an evaluate case open for DXC for the next two years (as it was identified as having the most potentially controversial activities), unless answers arise that resolve these questions in the interim. With respect to HPE, GES will stay abreast of developments, as reported by NGOs.

Both DXC and HPE have taken steps to improve their positions vis-à-vis human rights questions. While DXC has developed a Human Rights Statement and adopted global master service agreements referencing modern slavery/human trafficking, it remains to be seen how DXC implements its human rights policies in conflict areas and whether due diligence processes for operating in conflict areas are in place. HPE is guided by its Global Human Rights policy and indicates that business operations in Israel are regularly monitored by the Ethics and Compliance Office, which provides a direct conduit to the Board's Nominating, Governance and Social Responsibility Committee.

While attempts to speak with DXC and HPE have not yielded results, it may be possible that the companies would be more responsive to inquiry from a group of investors and asset managers.

Companies that provide information-based services in controversial and high risk areas, such as HPE and DXC, face a growing potential for human rights violations as technology becomes ever more sophisticated in an environment where settlement expansion in the OPT appears unabated. As the integration of environmental, social and governance ("ESG") factors into investor decisions continues to grow, there is likely to be an increased focus on tying company policies to practice. Tools to achieve this end include due diligence and contractual commitments, disclosure and communication, shareholder activism, stakeholder dialogues and ongoing review of ESG rating methodologies.

Overview of Results

- **Basel System**: The Basel biometric identification system installed at checkpoints in the West Bank and Gaza has reportedly been discontinued, with no further contractual involvement of HP. The Freedom of Information Act ("FOIA") inquiry specified both HP and any successors, with the response from the Israeli Ministry of Defence ("IMOD") only addressing HP as the contracted party. There is no information available on the new system replacing the Basel system, nor have the companies been named that will provide services on the new system and related biometric IDs for West Bank and Gaza residents. This system places OPT residents at-risk for violation of privacy rights, which may rise in prominence as technology becomes increasingly sophisticated.

  Who Profits has recommend a forward-looking effort to determine the identities of the incoming companies and has submitted multiple FOIA requests in this regard. With no confirmed service providers, the possibility exists that an HP company (most likely DXC) could still be operating the Basel system and related biometric IDs.

- **Aviv/Arbel**: The Aviv immigration and population system and associated biometric ID transition project, known as Arbel, has been used for citizens and residents living in Israel and East Jerusalem. While there are no inherent issues with having a population registry system in Israel, the system and biometric IDs have been reported to give rise to discrimination, including deportations of Palestinian residents in attempts to increase the proportion of the Israeli population in East Jerusalem. IBM is reported to be replacing DXC as the provider of this system and biometric IDs in 2020. HP is reported to have bid on the tender offer, with IBM winning the contact. GES has not received a response from IBM.

- **Construction Tracking**: There is insufficient information at present regarding the involvement of DXC subsidiary EntServ OMS in the computerisation system for tracking illegal or unauthorised construction in the OPT. The only sources currently available are a job posting from the subsidiary and a published tender which has yet to be awarded. The system will interphase with the Israeli Civil Administration ("ICA") Infrastructure ("Rolling Stone") system, while the tender document specifies an intention to expand the system to additional enforcement areas, such as "state land", military firing zones and environmental protection violations. The role may not to be that of a primary contractor, but rather to supervise the development of a new tracking system for the ICA, based on language in the job posting.

  Diakonia, a Swedish faith-based development organisation, references Article 53 of the Fourth Geneva Convention prohibiting destruction of property that is not justified by absolute military necessity. Who Profits submitted a FOIA request regarding the Rolling Stone system to IMOD in 2017, which has been subject to permitted monthly extensions for about a year before the NGO was redirected to the office of Coordination of Government Activities in the Territories ("COGAT"). FOIA requests have now been submitted for both the illegal construction tracking system and twice to COGAT for the Rolling Stone system.

GES Report: DXC Technology and HPE

- **R&D Centre**: Who Profits reported that DXC subsidiary EntServ OMS received a government grant in 2017 to support the creation of twenty new jobs in the settlement. EntServ OMS employs 300 people in total, though it was not possible to determine how many people are employed in the Beitar Illit settlement R&D facility. GES has traditionally maintained that the operation of a R&D centre has not been a strong enough link to the direct facilitation of illegal settlements, focusing instead on activities more closely connected to the expansion, such as natural resources extractors, mortgage lenders, providers of construction materials, construction firms, etc.

- **Prison System:** Who Profits has reported that, as of 2017, HPE had contracts with the Israel Prison Service ("IPS") for maintenance of servers and an email archiving system. In September 2017, IPS announced its intention to contract HPE without a tender (valid till February 2019) to provide maintenance services for two storage systems, backing systems and libraries and technical training.

  GES has traditionally evaluated company products and services based on whether they were developed and customised for an explicit purpose that violates international law with respect to the OPT. GES considers the link between HPE and human rights violations, such as transfers of Palestinian prisoners in violation of Geneva conventions, torture, mistreatment and discriminatory treatment, as being too weak. It should be noted that, in such a complicated political landscape, the risks of human rights violations are very high and shareholders may face criticism for investing in companies cooperating with authorities accused of human rights violations.

- **Military**: There are no indications of services to the Israeli military at this time, from both Who Profits and the American Society of Friends Committee, which reports that Cisco won a bid to replace HP/HPE's multi-year contract (extended until 2017) to be the exclusive provider of servers for the Israeli military and other Israeli security forces. The non-profit organisation Jews for Justice has previously indicated that HP has had significant contracts with the government exempt from tenders.

  GES' focus does not include services provided to the Israeli Military (which may extend to purposes beyond the OPT), except when they conflict with focus areas in the Position Paper. Providing servers would not in and of itself have constituted an OPT violation under GES guidelines. Because HP appears to have had a significant footprint in the past and a self-reported staff of 5,700 in Israel, GES is keeping its DXC case open to see if new information should surface within the next two years.

- **Settlement Programmes**: Who Profits submitted FOIA requests in 2017 to all settlement municipalities and councils participating in the Smart City programme, requesting information about contracts with private companies. Neither DXC nor HPE was mentioned in the Smart City responses received, including one from the Ariel settlement, which was highlighted in a prior Who Profits report. Who Profits also provided an update to GES on two Israeli companies had previously provided technological services to HP in the West Bank, indicating that it was not aware of any services being provided by either company in the OPT at this time.

Appendix 2

GES Report: DXC Technology and HPE

GES International AB is a leading provider of responsible investment and engagement services to institutional investors. We support asset owners and asset managers in developing and implementing integrated investment strategies with regard for environmental, social and governance (ESG) considerations. Representing more than EUR 1 trillion of investments worldwide, GES acts as an owner-advocate by evaluating material ESG risks in clients' portfolios, engaging with company representatives and providing voting support at general meetings. GES is an independent company founded in 1992 with over 60 employees globally, of which 40 are dedicated to corporate engagement. We have offices in the UK, Sweden, Denmark, Poland and Switzerland with engagement professionals based in a number of other European countries.

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Appendix 3

DIP Activity: Quarter to 30th June 2018

Progress of DIP investments during the quarter included the following.

- The legal process for infrastructure investments in **Hermes Infrastructure Fund II and Dalmore Capital Fund III** were concluded and initial drawdowns have now commenced at a strong pace. Hermes will be targeting essential, operational assets in the utilities, renewable energy, transport and social infrastructure sectors while Dalmore will be targeting PFI/PPP, OFTOs (offshore transmission), student accommodation, regulated utilities, energy generation and social housing assets. DIP has invested in a previous Dalmore fund while the investment with Hermes is DIP's first with this fund manager.

- SPF Committee approval was obtained in May for three investments. comprising i) £50m into **Equitix Fund V** (infrastructure sector); ii) £50m into **Greencoat Solar Fund II** (ground mounted solar farms) and iii) £20m into **GAM Real Estate Finance Fund** (a property investment debt fund).

  Equitix develops and manages core infrastructure and energy efficiency assets in the UK and participates in a number of framework arrangements in respect of local government – two Hubcos in Scotland and 20 Local Improvement Finance Trust Companies ("LIFTCos") in England. These provide a steady underlying stream of exclusive opportunities. The investment strategy of Equitix's core infrastructure funds is designed to take advantage of the attractive risk/return characteristics of core infrastructure assets offering investors predictable yields, long duration asset life and limited default and financing risk.

  Greencoat Capital is one of the largest dedicated renewable energy infrastructure managers in the UK, with over £2bn of assets under management. Greencoat's first solar fund (Fund I) was launched in September 2016 and secured total commitments of £295m, which was invested in 25 UK assets with a total generating capacity of 230MW. As with Fund I, Greencoat's second solar fund (Greencoat Solar II LP or Fund II) seeks to generate predictable, long-term, inflation-linked cashflows from the acquisition of a diversified portfolio of operating, ground-mounted solar PV farms in the UK.

  GAM is one of the world's leading independent asset managers, headquartered in Zurich with assets under management of $127bn. In 2015 GAM acquired Renshaw Bay LLP, which managed the Real Estate Finance Fund I (REFF I), in which DIP invested £10m. The REFF I fund has been invested in a diversified portfolio of secured, mid-market CRE loans to property investment companies. REFF I is now in the loan realisation phase and GAM is raising funds for its successor fund (GAM REFF II) which is seeking to raise £350m to lend on similar lines as the first fund, to borrowers mainly located in the UK but also in western Europe (with a leaning towards Ireland in particular).

Appendix 4

Voting Activity: Quarter to 30th June 2018

1. UK Activity

Managers' voting activity in respect of the Fund's **UK equity** holdings in the quarter to 30th June 2018 is summarised in the table below. The expected norm would be for an investment manager, having invested in a company, to support that company's management in all but exceptional cases. The table below shows how votes were actually cast. Votes against management and abstentions are analysed in more detail in the voting record schedule which is available on the Fund's website at www.spfo.org.uk

Voting Results
Q2 2018
United Kingdom

	Total Meetings	AGM's	EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	7	7	0	0	151	144	7	0		7	0
Genesis	4	4	0	0	74	72	2	0	0	4	0
Henderson	59	54	5	0	796	774	18	4		59	0
JP Morgan	13	11	2	0	200	198	2	0		13	0
Lazard	0	0	0	0	128	127	1	0		0	0
Legal & General	376	323	53	0	5,890	5,480	409	1	0	376	0
Legal & General - Segregated Portfolio	4	4	0	0	74	58	6	0	10	4	0
Oldfield Partners	3	3	0	0	74	74	0	0		3	0
Veritas	4	4	0	0	84	79	5	0		4	0
Total	470	410	60	0	7,471	7,006	450	5	10	470	0
						94%	6%	0%	0%	100%	0%

2. Overseas Activity

Managers' voting activity in respect of the Fund's **overseas equity** holdings in the quarter to 30th June 2018 is summarised in the table below.

Voting Results
Q2 2018
Overseas

	Total Meetings	AGM's	EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	43	32	5	6	613	534	41	8	30	43	0
Genesis	178	142	20	16	2,250	1,823	209	152	66	178	0
Henderson	8	7	1	0	62	59	3	0	0	8	0
JP Morgan	257	230	20	7	2,524	2,064	341	15	104	257	0
Lazard	69	65		4	1,005	912	49	6	38	69	0
Legal & General	2,018	1,864	154	0	26,173	21,039	4,860	274	0	2,018	0
Legal & General - Segregated Portfolio	465	449	1	15	6,234	5,731	257	170	76	465	0
Oldfield Partners	15	12	2	1	235	195	39	0	1	15	0
Veritas	19	16	2	1	277	253	21	3	0	19	0
Total	3,072	2,817	205	50	39,373	32,610	5,820	628	315	3,072	0
						83%	15%	2%	1%	100%	0%

Managers generally do not vote proxies in markets where tendering shares to vote entails their being blocked from trading during the voting periods. All of the overseas proxies were lodged this quarter, with **83%** of votes in support of company management.

3. Consolidated Activity

Consolidated Activity for **Quarter 2 2018** is shown below

Appendix 4

Voting Activity: Quarter to 30th June 2018

Voting Results Q2 2018 Total UK & Overseas

	Total Meetings	AGM's	EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	**50**	39	5	6	**764**	678	48	8	30	50	0
Genesis	**182**	146	20	16	**2,324**	1,895	211	152	66	182	0
Henderson	**67**	61	6	0	**858**	833	21	4	0	67	0
JP Morgan	**270**	241	22	7	**2,724**	2,262	343	15	104	270	0
Lazard	**69**	65	0	4	**1,133**	1,039	50	6	38	69	0
Legal & General	**2,394**	2,187	207	0	**32,063**	26,519	5,269	275	0	2,394	0
Legal & General - Segregated Portfolio	**469**	453	1	15	**6,308**	5,789	263	170	86	469	0
Oldfield Partners	**18**	15	2	1	**309**	269	39	0	1	18	0
Veritas	**23**	20	2	1	**361**	332	26	3	0	23	0
Total	**3,542**	**3,227**	**265**	**50**	**46,844**	**39,616**	**6,270**	**633**	**325**	**3,542**	**0**
						85%	**13%**	**1%**	**1%**	**100%**	**0%**

4. Executive Remuneration

The table below shows the total number of resolutions from the last quarter which related specifically to executive remuneration. Of the **46,844** resolutions voted by managers **3,710** related to executive remuneration – either through seeking approval of remuneration reports or the approval of long-term incentive schemes. As can be seen **2,612** resolutions or **70%** of votes cast were in support of the resolutions. So, the majority of awards are supported by the Fund's external investment managers, but less so than on other non-remuneration issues. Some areas of concern regarding executive pay are reported below.

Voting Results Q2 2018 Resolutions on Executive Remuneration

	No of Resolutions	Votes For	Votes Against	Abstentions
Baillie Gifford	**54**	45	9	0
Genesis	**212**	172	38	2
Henderson	**56**	45	10	1
JP Morgan	**267**	231	36	0
Lazard	**96**	88	8	0
Legal & General	**2,469**	1,551	918	0
Legal & General - Segregated Portfolio	**510**	438	71	1
Oldfield Partners	**21**	21	0	0
Veritas	**25**	21	4	0
Total	**3,710**	**2,612**	**1,094**	**4**
		70%	**29%**	**0%**

5. Manager Commentary

- **J.P. Morgan** voted against 36 resolutions on executive remuneration in quarter 2. In Italy J.P Morgan voted against executive remuneration at **Amplifon SpA, Banca Mediolanum SpA, Brembo SpA, DatalogicSpA, DelonghiSpA** and **IMA SpA.** In the UK J.P Morgan voted against a payment to the CEO at **BGEO Group plc** because it constituted an ex-gratia payment for which there was insufficient justification. In Switzerland J.P. Morgan voted against the remuneration report at **Forbo Holding A.G.** due to the absence of performance conditions in long-term incentives. In Japan J.P Morgan voted against executive remuneration at **Gene Techno Science Co. Ltd**., **SanBio Co. Ltd**., **Square Enix Holdings Co. Ltd**. and **Start Today Co. Ltd**. In Sweden J.P. Morgan voted against two resolutions proposing a new long-term incentive plan at **Husqvarna AB** due to a lack of performance conditions on awards. In Belgium, J.P. Morgan voted against the remuneration report at **Melexis** due to a lack of performance conditions. In Jersey J.P. Morgan voted against the remuneration report at **Petrofac Ltd.** due to excessive overall compensation, including significant bonus payments despite a drop in performance. In Singapore J.P. Morgan voted against an award of share options and a share repurchase programme at **Venture Corp. Ltd**. due to potentially excessive dilution. In the United States J.P Morgan voted against executive remuneration at **Acadia Pharmaceuticals Inc**., **Bank of the Ozarks Inc**., **Clovis Oncology Inc**., **Financial Engines Inc**., **GenMark Diagnostics Inc**., **Groupon Inc**., **Nevro Corp**., **Signature Bank** and **Trans Enterix Inc**.

- **Henderson** voted against executive remuneration resolutions at 10 company AGMs in quarter 2. The remuneration report was opposed at **Hunting plc.** as termination payments to the former CEO were deemed excessive. The remuneration report was opposed at **Dialight plc**. as the new CEO's salary is excessive. The long term incentive plan at **Johnson Service Group plc.** was opposed as no individual award limits were specified (all resolutions approved). The remuneration report was opposed at **OneSavings Bank plc.** as the new policy increases the annual bonus potential from 100% to 150% of salary without a corresponding increase in the performance targets. The remuneration report was opposed at **Premier Oil plc.** as Executive Directors have received a bonus pay-out of 63% of maximum available bonus in a year where shareholder interests have been significantly diluted. A vote against the remuneration report at **Vectura Group plc** was in response to the disconnection between pay and performance. Henderson voted against both the remuneration report and remuneration policy at **Gulf Marine Services plc** as the bonus plan does not have appropriate targets and the policy is unchanged from 2015. The remuneration report was opposed at **Spire Healthcare Group Plc.** The newly appointed CEO's salary is considered very generous, performance targets have been reduced and threshold vesting and there is scope for additional disclosure on variable pay targets and termination arrangements. Henderson voted against both the remuneration report and remuneration policy at **Nostrum Oil & Gas Plc.** as the report lacks disclosure over remuneration for 2018 and the policy allows "Golden hello" awards under the long term incentive.

- **Lazard** opposed 8 resolutions on executive remuneration at company meetings across UK, Europe and North America during quarter 2. This included remuneration proposals at **Alphabet Inc.**, **Anheuser-Busch InBev S.A.**, **Comcast Corporation**, **Exxon Mobil Corporation**, **Shire Plc.**

Voting Activity: Quarter to 30th June 2018

- **Baillie Gifford** voted against 9 resolutions on executive remuneration in quarter 2. The executive remuneration report at **British American Tobacco** was opposed as the increased award to the CEO was not justified (resolutions approved by 74%). Baillie Gifford opposed remuneration resolutions at **Edenred** due to continued concerns about the stringency of the remuneration policy and its alignment with shareholders (resolutions approved). Baillie Gifford also opposed four resolutions to approve remuneration of executives due to concerns regarding the stringency of the plan and lack of alignment with shareholders at **Essilor International** (resolutions approved). Two remuneration proposals where opposed at **Legrand** because of concerns regarding the alignment between pay and performance in the long term incentive plan (resolutions approved). The remuneration report at **SAP** was opposed as Baillie Gifford continue to have concerns regarding the alignment between pay and performance (resolution approved by 90%).

- **Legal & General** voted against 989 resolutions on executive remuneration in quarter 2. The most notable was a vote against the compensation of the Chair & CEO at French food retailer **Carrefour S.A.** The outgoing Chair & CEO was awarded a total pay of €13m, including a termination and non-competition payment of €3.9m which was in breach of French corporate governance code. The resolution received a high level of dissent from shareholders with 32% voting against. Legal and general also voted against all other remuneration resolutions at Carrefour as they were not aligned with their pay policy.

- **Veritas** voted against 4 resolutions on executive remuneration in quarter 2. This included a vote against the remuneration policy at **Unilever N.V.** where substantial changes will provide for greater potential remuneration for the executive management. While Veritas would support some changes to the remuneration policy, a general increase in reward potential is not something that could be endorsed.

- **Genesis** voted against 38 resolutions on executive remuneration in quarter 2. This included remuneration proposals at **Alrosa PJSC**., **BB Seguridade Participacoes S.A**., **Banca Transilvania Cluj S.A**., **Engie Brasil Energia S.A**., **Equity Group Holdings Plc**., **Hikma Pharmaceuticals Plc**., **Lojas Americanas S.A**., **Rumo S.A**. and **Tingyi Holding Corp**.

Appendix 5

Engagement Activity: Quarter to 30th June 2018

- **Legal & General** engaged with Chair of **Whitbread**, the owner of Costa Coffee, regarding the environmental issue of disposable coffee cups. 7 million disposable coffee cups are used every day in the UK and as these cups contain a leak proof plastic coating they are recycled by specialist facilities. This adds an extra cost and effort for waste collectors. As a result, just one in 400 cups are recycled. As part of Legal and General's engagement on the environmental impact of the company's operations they raised the issue of coffee cups recycling and pushed for the company to take action. In April 2018 Costa coffee announced that by 2020 it would recycle the same volume of takeaway cups that their customers use. The company has committed to pay a supplement £70 to waste collectors for every tonne of cups collected. They estimate that half a billion takeaway cups a year should be recycled as a result of this initiative.

  Legal & General engaged with **Anadarko Petroleum** regarding a shareholder proposal asking the company to report on the long-term impacts on their resource portfolio and business strategy of limiting global warming to no more than two degrees Celsius. Legal and General have consistently supported such proposals calling for companies to accelerate and report on their transition to a sustainable future. Legal and General disclosed support for the resolution before the AGM in the hope that it would help inform other investors with an interest in the topic and encourage the company to engage on the issue. The proposal was passed with 52% of shareholders supporting the resolution.

  Legal & General engaged with French food retailer **Carrefour SA** regarding executive remuneration. In July 2017, the joint Chair & CEO resigned after a 20 years with the Company and was awarded a total pay of €13m, including a termination and non-competition payment of €3.9m. The award of a significant remuneration package to the outgoing Chair & CEO raised concerns given the performance of the company during his tenure. In addition, Legal & General noted the award of a non-compete payment when the outgoing Chair & CEO had exercised his pension rights. The French AFEP-MEDEF code recommends that the benefit paid in respect of the non-competition agreement must not exceed the ceiling of two years of compensation (annual fixed and variable). When a termination benefit is also paid, the aggregate of these two benefits must not exceed this ceiling. The total of this award exceeded the recommended limit. In addition, the AFEP-MEDEF code explicitly recommends not awarding any termination benefits where the director is entitled to benefit from his or her pension rights. Given the concerns, Legal & General voted against the resolution to approve the compensation of the leaving Chair & CEO. Legal & General also voted against all other remuneration resolutions as they were not aligned with Legal & General's corporate pay policy. 32% of shareholders voted against the resolution. Following this vote, the High Committee for Corporate Governance (HCGE), which is the body overseeing the application of the French Governance Code, wrote to the Chair & CEO of Carrefour to ask for an explanation on the termination and non-competition payment made to the outgoing Chair & CEO. In addition, this vote triggered a controversy in France given the social sensitivities around executive pay. The French Government publicly criticised the quantum paid to the outgoing CEO, including his termination and non-competition payment. The company subsequently declared it had decided not to award the termination and non-competition payment. Given the public controversy around this issue, the French Corporate Governance Code, which was still being reviewed at the time of the controversy, was strengthened on this issue. Under the revised code, non-compete payments cannot be awarded when the director claims his or her pension rights, and no non-competition benefit can be paid over the age of 65.

- **Baillie Gifford** met with the CEO of South African based multinational internet and media group **Naspers** to discuss remuneration. Baillie Gifford have been engaging with the company on remuneration for several years and have abstained on the resolution to approve the remuneration report at the annual general meeting since 2014 due to poor disclosure. At a recent meeting to discuss proposed changes to the company's remuneration report the company admitted support for the remuneration policy had been less than desired and recognised the need for improved disclosure to appease shareholder concerns. Baillie Gifford are reassured that the company has taken account of shareholder feedback over the years and is beginning to improve in this area. Disclosure is only the first step, and conversations regarding the structure of the plan will continue.

- The Fund's engagement overlay provider, **GES**, engaged with **HSBC Holdings** (Baillie Gifford) regarding financial crime. GES began an engagement with HSBC in 2016 following recurring incidents of money laundering. The key incidents that were of particular concern included:
  - HSBC's US/UK Deferred Prosecution Agreement (DPA) from 2012 in relation to anti-money laundering (AML) and sanctions violations;
  - the HSBC Swiss private bank files that were leaked and the associated investigations by various governments (specifically Argentina, India, France and Belgium) into HSBC's alleged facilitation of tax evasion; and
  - the Panama Papers leak that indicated that HSBC had created 2,300 shell companies for the Panamanian law firm Mossack Fonesca and its clients.

  GES' engagement objective was to ensure that HSBC has robust systems and controls to prevent financial crime and money laundering. Over the past five years, HSBC has overhauled its financial crime compliance systems and processes. Much of the work has been dictated by the terms of its DPA, which clearly outlined the remedial actions that the bank must take in order to not face criminal prosecution and/or the revocation of its US banking licence. In addition, the bank's work in this area has been overseen by a court-appointed monitor. GES had four meetings in person and one conference call with HSBC, in which the company was very open to discussing the various actions that it has taken to address these issues. HSBC also provides comprehensive disclosure on financial crime risk management on its website and in its 2017 Annual Report. A key issue that HSBC has sought to address over the years has been the uniform application of its AML policies. In 2017, HSBC put in place a new anti-money laundering and sanctions framework. 'Know Your Customer' is a key part of this framework, as the bank wants to ensure that the economic purposes of its clients are aligned with its risk appetite – both at the point of bringing on a new client and on a periodic basis. All four lines of HSBC's business are using its new customer due diligence on-boarding tool. Transaction monitoring and client screening (particularly in relation to politically-exposed persons) are also elements of the framework. The implementation of this new framework was accompanied by a major upgrade of HSBC's compliance IT systems in 2017. The bank uses a combination of both internal and external software for this monitoring. In terms of training, HSBC has an in-depth education and training programme regarding compliance and financial crime, which involves front, back and middle office staff, as well as the CEOs of their banks and subsidiaries. HSBC also has enterprise-wide risk assessments that are conducted at each bank/subsidiary, which pertain to the various risks that are particularly acute and relevant within that jurisdiction. In addition to the compliance aspects, the bank has focused on improving its corporate culture. In 2016, HSBC introduced a charter on ethical banking. The charter is part of a broader programme to encourage employees to speak up and to raise awareness about financial crime risk. HSBC has also developed a specific risk management framework for financial crime. In 2016, HSBC created an internal new financial crime risk function and appointed a Group Head of Financial Crime Risk, who reports to the Group Chief Executive. There is also a board sub-committee that provides oversight of financial crime, the Financial System Vulnerabilities Committee (FSVC) attended also by the Group Head of Financial Crime Risk.

The bank has told GES that many of the issues raised by the Swiss tax leaks and the Panama Papers are historical. HSBC has said that it now has a much more restrictive appetite for the types of accounts that were exposed in the Swiss Tax and Panama Papers leaks. Finally, on 12 December 2017, HSBC announced that the US Department of Justice had ended its DPA, noting that the bank has made significant improvements to its AML systems and processes. The dismissal of the DPA removes any threat of criminal prosecution for the bank and provides another level of assurance that the bank has adequately addressed prior AML failings. Given HSBC's extensive work on improving its AML procedures and systems and the closure of its DPA with the US authorities, GES decided to close its engagement with HSBC in February 2018. GES will continue to monitor the situation and reassess the conclusion should any new developments occur in this area.

- The Fund's engagement overlay provider, **GES**, engaged with **Phillips 66** and **Enbridge Energy Partners** (Legal & General) regarding the **Dakota Access Pipeline project.** In September 2016 the UN Special Rapporteur on the rights of indigenous peoples stated that the US Dakota Access Pipeline (DAPL) project posed significant risks to the Standing Rock Sioux tribe. The DAPL, part of the wider Bakken oil pipeline, transports crude oil from the Bakken fields of North Dakota to a distribution centre in Patoka, Illinois. The pipeline was developed by Energy Transfer Partners LP, Phillips 66, and Enbridge Energy Partners. The pipeline passes close to the tribe's reservation and beneath the Missouri River, the reservation's main source of drinking water. The pipeline's risks include water pollution and the destruction of burial grounds and sacred sites. The Special Rapporteur, among others, has also alleged that the tribe was not effectively consulted and did not give its consent to the current routing of the pipeline. The project has been approved by regulatory agencies in all four states where the pipeline will operate. In February 2017, the US Army Corps of Engineers, the US authority which issues permits for the part of the pipeline that crosses federal land, granted the final permit needed for its completion. In June 2017, the pipeline became operational. Phillips 66 met with GES and institutional investors in Stockholm in May 2018. The meeting focused on the company’s newly adopted human rights policy (introduced in 2017) and, in particular, how it had implemented it in relation to the rights of indigenous peoples. The company explained that agreements are always made with indigenous tribes when its pipelines crosses indigenous territories. Consultations are undertaken when there are other impacts on indigenous peoples (other than direct territory crossings). What meaningful consultations with indigenous peoples entail was also discussed at the meeting. The company communicated that there is a person at Phillips 66 who specifically works on relationships with indigenous peoples. Community councils are put in place nearby company operations. They are open to any community member interested in providing input and receiving information about the operations.

It appears that the company has put more actions in place than it reports, but it is difficult to see how systematic it is. GES continues to engage with the company in order to improve its disclosure and to clarify its management of community relations, particularly in relation to indigenous peoples. The company said it is about to issue a brochure, including engagement with indigenous people. In a follow-up call, as well as in written, GES has provided input on what investors would like to see reported.

Progress is noted in one of the other DAPL-related cases, Enbridge. In late June 2018, a report named Indigenous Rights and Relationships in North American Energy Infrastructure was released by the company. The report is a comprehensive outline of Enbridge’s indigenous rights policy and how it is systematically applied in company operations. The report also includes a review of Enbridge's policies and procedures in relation to the Foley Hoag's (US law firm specialised on human rights) good practice report on social impacts in the US pipeline industry. An engagement period follows the report with, among others, indigenous peoples, industry peers and investors. GES has provided feedback before the public release and is scheduling a call with the company to discuss its implications further.

GES has also, after more than a year of attempts, held an introductory call with Energy Transfer Partners. The company has agreed to have a dialogue with GES about indigenous people and DAPL.

Appendix 6

Disclosure on ESG issues: Quarter to 30th June 2018

- The Fund's engagement overlay provider, **GES**, provided a report on social media and social networking service company **Facebook** regarding data security. (Veritas, Legal & General). In April 2018 Facebook confirmed that the data of at least 87 million users worldwide was improperly obtained by Cambridge Analytica (CA). In 2014 the data analytics firm acquired personal information of Facebook users without proper authorisation and used it to build a system to profile and manipulate the behaviour of US voters. After the data leak was revealed Facebook introduced a number of measures to better protect its users' data including reviewing all the apps that had access to large amounts of information before the company changed its access policies in 2014. However, in May and June 2018 more instances of Facebook failing to protect its users' privacy came to light, including sharing sensitive information with third parties and giving device makers around the world unauthorised access to data.

  Facebook has been subject to claims that it knew about the Cambridge Analytica data harvesting as long ago as 2015; however, it took only limited steps to secure the improperly obtained information. Furthermore, despite providing information to users who it confirmed were affected by CA, the company reportedly said that it would not compensate those whose data was leaked. In addition, to date, the company has not announced any personnel changes in relation to the scandal. At this year's AGM a significant number of shareholders opposed the reappointments of Facebook's CEO and COO to the board. Prior to the AGM Facebook announced a number of governance changes, including appointing two new independent directors to the audit committee, responsible for the risk oversight at the company. However, so far, neither an executive nor a single board member has been held accountable for the lack of oversight and inadequate management of cybersecurity risks.

  GES' engagement objective is for Facebook to realise its commitments to privacy and data security and ensure an adequate level of protection of information to prevent similar issues from reoccurring. Facebook should also increase transparency in reporting. Despite many warnings over the years about the potential risk for misuse of the Facebook platform and the existence of gaps in the company's systems, Facebook has failed to proactively address the cybersecurity risks. GES has observed a similar reaction in response to its attempts to engage in dialogue with the company. So far, Facebook appears uninterested in discussing the outcome of the data leaks with GES. The company only recently responded to queries by referring to its public announcements. GES is currently attempting to establish meaningful dialogue with the company.

- The Fund's engagement overlay provider, **GES**, provided a report on pollution incidents arising from the US operations of American multinational chemical company **DowDuPont Inc**. (Lazard, Legal & General). According to US authorities DowDuPont and its spin-off company, Chemours, have been involved in the systematic under-reporting of numerous, long-term, pollution incidents which have allegedly adversely impacted the health of residents in at least three states: North Carolina, New Jersey and West Virginia. Following an investigation by The North Carolina Department of Environmental Quality (NC DEQ) into the Fayetteville chemical plant, the NC DEQ filed a motion against DuPont and Chemours in April 2018. The plant had been owned and operated by DuPont, until 2015, when the site was one of 170 sites spun-off by DuPont to Chemours. The motion states that the companies had failed for years to disclose the presence of a chemical known as Gen-X in their process wastewater and had made statements that misled the NC DEQ as to the presence of Gen-X in their process wastewater.

Gen-X is an unregulated fluorochemical that has been found to result in detrimental effects to the liver and blood in animals, including cancer. As it is 'unregulated' i.e. there is no threshold based upon toxicological data, the acceptable limit for any discharge is the actual detection limit of the analysis. The motion also specifically charges Chemours with knowingly emitting some 2,700 pounds (1,225 kg) of Gen-X, annually in its emissions, which is 40 times the amount reported by the company in 2017. The NC DEQ stated in a letter to the company that the results establish a 'causal relationship' between air emissions and the 'widespread degradation of groundwater'.

A recent media investigation into the former DuPont-owned, now Chemours-owned, Pompton Lakes site in New Jersey alleged that DuPont had knowingly permitted the discharge of solvents into an unlined discharge pond for approximately 40 years. The pond fed directly into the groundwater beneath the neighbouring residential area and polluted the adjacent, aptly named, Acid Brook. The solvents included perchloroethylene (PCE) and tetrachloroethylene (TCE), two types of what are known as semi-volatile organic compounds. Concerns over their health impacts have been reported since the 1970s, with testing of drinking water mandatory in the US since 1974. Long-term exposure can lead to, amongst other things, neurological damage and the US EPA has classified both PCE and TCE as 'likely to be carcinogenic to humans'. The solvents were first identified in the groundwater near DuPont's Pompton Lakes site in 1984 by the State of New Jersey's Department of Environmental Protection. Between 1991 and 1996 DuPont spent USD 40 million in a limited remediation of Acid Brook and of 140 neighbouring properties in order to remove lead and mercury-contaminated sediments. Following this limited clean-up the company requested residents to sign an agreement stating they were satisfied with the clean-up whilst unknowingly absolving DuPont from further responsibility should further contamination come to light in the future. Media reports allege that the company knowingly misled the residents as it continued to prevaricate with the regulators over the solvent pollution identified in the groundwater. In 1998, DuPont did agree to install a USD 1.2 million groundwater remedial pump and treat system on the southern boundary of its site and continues to treat some 8,000 gallons (30,200 litres) of groundwater a day. In 2016 DuPont agreed to a further USD 50 million remediation of Pompton Lake by removing some 130,000 cubic yards (about 100,000 cubic metres) of sediment. Chemours then put in passive remedial measures (i.e. measures that try to mitigate the effects of the contamination rather than actively remediate the source) across the affected residential area. However, the underlying contamination plume has yet to be remediated and remains beneath at least 400 homes, with consequential ongoing health impacts. The health impacts were highlighted in a March 2014 New Jersey state health study from that showed anomalously high levels of kidney cancer and lymphoma in the residents of Pompton Lakes.

GES has confirmed the case based upon the NC DEQ investigation and the reported causality of the discharged Gen-X and the pollution found in the groundwater. However, both companies have tended to prevaricate and delay any remedial measures, whilst doing so putting lives at risk. To this end GES would like the companies to undertake a review of their sites, prioritise the sites which are known or believed to be causing detrimental human health, and/or environmental, impacts. The companies should implement suitable remedial measures. In addition, they should ensure that all current waste disposal methodologies meet best practices to prevent re-occurrences in the future. Besides impacts on humans and the environment, this is also a material risk to the company as both court actions and continuing out-of-court settlements constitute financial costs to the companies.

- **Baillie Gifford** met the CEO of **Ryanair** for an update on how the business has been progressing since the flight cancellations last year. With Peter Bellew returning to the role of chief operations officer, the continued recruitment of pilots and trainees, review of rostering schedules and a chief risk officer joining the senior management team, Baillie Gifford felt reassured that Ryanair continues to make progress. Ryanair has reviewed pilots' pay (offering a 20% uplift) and discussions with unions are continuing although some agreements remain outstanding. Baillie Gifford will continue to monitor developments. Baillie Gifford met the head of sustainability at **Brambles** to discuss the company's approach to sustainability. Brambles provides supply-chain logistics solutions with reusable pallets, crates, and containers for shared use by participants in the supply chain. Given the reusable nature of its products, Brambles is an inherently sustainable business and the company believes this provides an advantage in attracting clients who are increasingly looking to improve their own sustainability performance. Brambles has ambitious sustainability goals, for example targeting 100% of timber being sourced from sustainable sources, which it is on track to achieve, and has embedded the UN Sustainable Development Goals into its strategy. The meeting provided an insight into how a company can integrate sustainability into its core business model.

Appendix 7

UNPRI Signatories

Manager	PRI Signatory	If not, manager's explanation
Alcentra	Yes	
Ashmore	Yes	
Baillie Gifford	Yes	
Barings	Yes	
DTZ	Yes	
Genesis	Yes	
Henderson	Yes	
JP Morgan	Yes	
Lazard	Yes	
Legal and General	Yes	
Oak Hill Advisors	Yes	
Oldfield	Yes	
Pantheon	Yes	
Partners Group	Yes	
PIMCO	Yes	
Ruffer	Yes	
Veritas	Yes	
No.3 Fund		
Ruffer	Yes	
Legal and General	Yes	
Direct Investment Portfolio		
Aberdeen Asset Management	Yes	
Albion Ventures LLP	No	The firm has considered the PRI in preparing its own policy and has adopted them as appropriate.
Alpha Real Capital LLP	No	Currently in the process of reviewing PRI and other established alternative accredited bodies.
Ediston Properties Ltd (Clydebuilt)	No	Consideration is given to ESG factors when investing in properties.
Epidarex Capital Mgt. Ltd	No	Manager believes PRI is not applicable to a life science venture capital fund.
Equitix Investment Mgt. Ltd	Yes	
UK GIB Financial Services Ltd	Yes	
Healthcare Royalty Management LLC	No	Currently in the process of evaluating the PRI principles.
Hermes GPE	Yes	
Iona Capital LTD	No	Iona is currently progressing towards becoming a signatory.

Appendix 7

UNPRI Signatories

Maven Capital Partners UK LLP	No	Maven adheres to PRI standards as they are deemed industry best practice.
Muzinich & Co. Limited	Yes	
NTR	No	NTR takes a responsible investment approach to its business and is currently considering signing up to UNPRI.
Panoramic Growth Equity	Yes	
Pemberton Asset Mgt. S.A	No	Pemberton have an ethical investment policy in place. Although not currently a signatory to PRI this will be considered over the lifetime of the fund.
Pentech Ventures LLP	No	Pentech acts in accordance with the Principles. At this stage they do not believe it would be beneficial to Pentech for it to become a signatory to PRI but will keep under review.
PIP (Dalmore Capital Limited)	Yes	
PiP Manager Limited	Yes	
GAM International Management Ltd (Renshaw Bay)	Yes	
Resonance Asset Mgt. Ltd "RAM"	Yes	
Scottish Equity Partners LLP(SEP)	No	SEP has considered PRI in forming its responsible investment procedures.
Tosca Debt Fund	No	Tosca are committed to PRI and assume the principals in their decision making.
Scottish Loan Fund (Maven Capital Partners UK LLP)	No	Maven adheres to PRI standards as they are deemed industry best practice.
Temporis Capital Limited	Yes	

Collaborative Initiatives

ShareAction

ShareAction is a London based registered charity that promotes responsible investment. ShareAction aims to improve corporate behaviour on environmental, social and governance issues. The charity has launched numerous campaigns, with support from savers, charities, unions, faith groups and other civil society organisations to engage with investors to bring about change. ShareAction's work recognises that the money individuals and organisations put into the investment system funds global corporations, who in turn have the power to change business practices that are harmful to people or the environment. The Fund has been supportive of the work of ShareAction for several years and ShareAction has been successful in raising awareness of issues and in lobbying for change.

- **Living Wage**

  Strathclyde Pension Fund became involved with the living wage theme in early 2013 when the Convener co-signed a letter to the Financial Times in collaboration with 12 other UK pension funds and foundations to support the ShareAction JustPay! Campaign. The letter called on UK publicly listed companies to embed social sustainability in their businesses by paying employees and contracted staff the Living Wage. The second stage of the campaign commenced in early 2014 and involved sending collaborative letters to the constituents companies of the FTSE 100 index. The letters called on these companies to pay employees and contracted staff the Living Wage. Letters have gone out to each FTSE100 company prior to their AGM and the campaign is now in its fifth year. There are currently 36 companies in the FTSE 100 accredited by the Living Wage Foundation, A further 10 have committed to full compliance with the Living Wage standard but have not yet taken the step to commit to accreditation. This means that, in practice, 44 of the FTSE 100 are currently fully compliant with the Living Wage standard.

- **The Workforce Disclosure Initiative**

  The Workforce Disclosure Initiative (WDI) is a project to advance investor understanding and in turn consideration of the people behind the largest publicly listed companies, from those directly employed to those employed in the supply chain. The WDI is run by ShareAction and is supported by a coalition of 100 institutional investors representing more than $12 trillion in assets. The initiative is also supported by the Pensions and Lifetime Savings Association (PLSA) and the Department for International Development.

  Through the WDI, investor signatories come together to request that companies provide comparable data on the workforces in their operations and supply chain on an annual basis. Improved transparency will help investors gain crucial insights into how companies are managing their workforces, and how they compare with peers. The data collected will also inform investor engagement with companies to encourage better employment policies and practices. Ultimately, the goal of the WDI is to improve the quality of jobs for employees in companies' global operations and workers in their supply chains. The level of comparability in this area of corporate reporting is currently poor.
  The WDI is modelled on the Carbon Disclosure Project. It involves an annual investor-led survey of multinational companies which asks companies to report

Collaborative Initiatives

on key areas like the composition of the workforce, workforce stability, workforce development and worker engagement. Both direct employees and those throughout the supply chain are covered. The initiative then coordinates collaborative engagement efforts by interested investors with these companies to encourage higher standards.

- **Investor Decarbonisation Initiative**
  Investor Decarbonisation Initiative brings together institutional investors to encourage companies to set ambitious climate targets in line with goals of the Paris Agreement. The initiative delivers coordinated company engagement, promoting proactive emissions reductions at the rate required to avoid dangerous climate change. This initiative mobilises investor support for science-based emissions targets and complementary commitments to renewable electricity (RE100), energy productivity (EP100), and electric mobility (EV100).

- **RE100 Renewable Energy**
  RE100 is a collaborative initiative that supports companies that make a public pledge to switch to 100% renewable electricity for their international operations by an agreed date. RE100 was launched in 2014 and is now being rolled out in India and China in addition to Europe and the US. The initiative is supported by 50 institutional investors representing more than $1 trillion in assets and is coordinated by ShareAction. Founding members of the investor initiative include Aviva Investors, Environment Agency Pension Fund, French pension fund ERAFP and Norwegian fund KLP. The investor engagement programme, supported by ShareAction, engages with companies through letters, meetings and AGMs, to encourage them to switch to 100% renewable energy. By sending investor-endorsed letters, asking questions at company AGMs and talking through the challenges and benefits of renewable electricity procurement with these companies, the RE100 initiative has helped to push sustainable power up the corporate agenda. Corporate members of RE100 with goals to achieve 100% renewable electricity span a wide variety of industries and operate in a broad range of countries across the world. They include: Apple, BMW Group, Diageo, IKEA Group, Johnson & Johnson, Marks & Spencer, Nestlé, Philips, Starbucks, Unilever and Walmart.

- **EP100 Energy Productivity**
  EP100 is a global, collaborative initiative of influential businesses that pledge to double their energy productivity. The EP100 initiative is a companion to RE100, through which businesses commit to 100% renewable power. Together the two campaigns offer companies a low cost decarbonisation pathway. By doubling the economic output from every unit of energy consumed, companies set a bold target, demonstrating climate leadership while reaping the benefits of lower energy costs. Business accounts for around half of the electricity used worldwide. By focusing on energy productivity outcomes, corporates can reduce their own energy demand and significantly contribute to reducing energy demand globally. By doubling energy productivity, corporations are also enhancing their resilience and boosting competitiveness, all while reducing greenhouse gas emissions, creating jobs,

and improving energy security. Corporate members of EP100 pledged to double their energy productivity span a wide variety of industries and operate in a broad range of countries across the world. They include: H&M, Danfoss, Schneider Electric, Swiss Re, Mahindra & Mahindra, and Dalmia Cement.

- **EV100 Electric Mobility**
  EV100 is a global initiative bringing together companies committed to accelerating the transition to electric vehicles (EVs) and making electric transport the new normal by 2030. The transport sector is the fastest-growing contributor to climate change, accounting for 23% of global energy-related greenhouse gas (GHG) emissions. Electric transport offers a major solution in cutting millions of tons of greenhouse gas emissions per year, as well as curbing transport related air and noise pollution. With businesses owning over half of all registered vehicles on the road, it is crucial that companies lead the shift to electric vehicles. Through their investment, and influence on millions of staff and customers worldwide, they can address rising global transport emissions. They can also significantly enhance mass demand for electric vehicles. By setting out their future EV purchasing requirements on an ambitious timescale, companies can drive mass roll-out and make electric cars more rapidly affordable for everyone around the world. Corporate members of EV100 include: Air New Zealand, Baidu, Deutsche Post DHL, EDF, Ikea & Unilever.

Farm Animal Investment Risk and Return (FAIRR)
Established by Coller Capital the initiative is now supported by institutional investors representing more than $3.3 trillion in assets including Aviva Investors, Boston Common Asset Management and Joseph Rowntree Charitable Trust. It aims to encourage analysis and engagement around the long-term risks that factory farming poses to portfolios. The animal factory farming sector is becoming a high-risk sector for investors, and is exposed to numerous sustainability-related factors. In many cases these risks are already showing evidence of significant value destruction. Factory farming alone contributes 30 percent of global methane emissions and 65 percent of nitrous oxide emissions. Today, livestock farming produces more global greenhouse gases (15 percent) than the transport sector (14 percent). Similarly, about 75 percent of soybean production, which is a major contributor to deforestation and climate change, is used to feed livestock. Therefore factory farming leaves itself and its investors critically exposed to potential new climate legislation in the transition to a more carbon constrained world.

The main involvement of SPF to date has been collaborative letters to food and restaurant companies regarding the use of antibiotics in their meat and poultry supply chain. FAIRR, in partnership with The Interfaith Centre on Corporate Responsibility (ICCR), brought together a coalition of 60 institutional investors worth $2.2 trillion to ask companies to take action on the systemic overuse of antibiotics.

Fire and Building Safety in Bangladesh Initiative.

Appendix 8

Collaborative Initiatives

Following the collapse of Rana Plaza in Dakar where nearly 1,200 garment factory workers lost their lives, the Interfaith Centre on Corporate Responsibility (ICCR) organized a coalition of over 200 global institutional investors representing 12 countries and $3.1 trillion in assets to promote reform of the global apparel sector to guarantee the safety and well-being of workers. The initiative works to encourage apparel companies to sign The Bangladesh Accord on Fire and Building Safety, a multi-stakeholder initiative that includes global brands, trade unions, civil society organizations and a representative of the International Labor Organization as the independent chair. Accord signatories agree to binding commitments to make the changes necessary to ensure worker safety. ICCR is a coalition of faith and values-driven institutions who view the management of their investments as a powerful catalyst for social change. The Fund has worked collaboratively with ICCR on a range responsible investment issues over the years including the Fire and Building Safety in Bangladesh Initiative and the FAIRR antibiotics initiative.

Institutional Investors Group on Climate Change (IIGCC)
In December 2016 the Fund joined this network of nearly 140 members, including many of the largest pension funds and asset managers in Europe, who represent over €18 trillion in assets and take a pro-active approach to managing risks and opportunities related to climate change. The IIGCC provides investors with the collaborative platform to encourage public policies, investment practices and corporate behaviour that address long-term risks and opportunities associated with climate change. To deliver on its objectives, IIGCC operates a number of programmes that commission research, produce reports and engage with various stakeholders.

Local Authority Pension Fund Forum (LAPFF)
The Fund is a member of the Local Authority Pension Fund Forum, a collaborative shareholder engagement group which brings together 72 local authority pension funds from across the UK with combined assets of over £200 billion. LAPFF's mission is to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. Much of the Forum's work is in ensuring that companies have the right policies and right people in place to create value for shareholders over the long term. LAPFF's policy is that robust engagement on a collective basis is preferable to placing restrictions on particular types of investment. Therefore the Forum considers that issues such as climate change and employment standards require as much investor attention as more traditional concerns such as corporate governance and executive remuneration. In some aspects of its work, LAPFF adopts a more high-profile and interventionist approach to shareholder engagement. It has led investor criticism of accounting standards that can misrepresent the capital position of financial institutions, and spoken out publicly against poor standards and excessive pay at the banks. It has also been an integral part of an investor grouping encouraging a positive response by companies to climate risk by filing supportive shareholder resolutions.

CDP
CDP, formerly the Carbon Disclosure Project, is an international not-for-profit organisation that drives companies and governments to reduce their greenhouse gas

Collaborative Initiatives

emissions, safeguard water resources and protect forests. CDP represents institutional investors with assets of US$100 trillion, helping to leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts; whilst also providing insights into corporate environmental performance for investors. Over 5,800 companies with some 60% of global market capitalisation disclosed environmental data through CDP in 2016 alongside 500 cities and 100 states and regions, making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change

The Fund is a signatory to **Carbon Action** and the **Water** and **Forest** programs of CDP.

Carbon Action is a CDP initiative supported by over 329 signatories which works with investors and corporations to encourage companies to take action to reduce their Green House Gas emissions by making investments in emissions reduction activities that have a satisfactory financial return. To date over 1,305 companies targeted in heavy emitting industries, $313bn invested in emissions reduction activities with 3,886 reported projects and reduced emissions of 522 million metric tonnes CO2e reported.

The **CDP Forest** program engages companies to disclose their exposure to five forest risk commodities – cattle products, bio fuels, soy and timber, supported by 380 signatories with assets of US$29 trillion.

The **CDP Water** program engages companies to disclose their exposure to water risks and opportunities, supported by 639 signatories with assets of US$69 trillion.

Climate Action 100+

Climate Action 100+ was launched in December 2017 with the support of 225 investors representing $26.3 Trillion in assets. Entities backing the project include many of the UK's local authority schemes, and some of the most influential Australian, Canadian and US public pension funds. Co-ordinators include the **Institutional Investors Group on Climate Change (IIGCC),** and **Principles for Responsible Investment (PRI)**. The five year initiative will use carbon mapping data to target the worst climate offenders directly, to curb their emissions, improve climate governance and strengthen disclosure. The 100-strong list of top emissions generators, drawn up with CDP data and developed through a collaborative process from investor and partner organisations, compiles both companies' direct and indirect emissions. It names obvious polluters such as ExxonMobil, Coal India, China Petroleum & Chemical Corporation and Gazprom, plus groups linked to greenhouse gas emissions in the making or use of their products, including Toyota, United Technologies, Korea Electric Power Corporation, and Nestlé. Pressure will be brought to bear through robust engagement. The goal: to cut global emissions by 80 per cent by 2050.

Appendix 9

Collaborative Initiatives: activity during the quarter

Working with ShareAction and others, the Fund has carried out direct collaborative engagement across a range of initiatives. It is also a member of industry collaborative forums including the Local Authority Pension Fund Forum, the Institutional Investors Group on Climate Change and the Carbon Disclosure Project.

- The responsible investment charity **ShareAction** provided an update of progress on the **Investor Decarbonisation Initiative**. Three target companies, **Saint Gobain**, **A2A** and **Ajinomoto** committed to set Science Based Targets during quarter 2. ShareAction engaged with **Intel Corp** regarding Science Based Targets and the RE100 renewable energy initiative. The company is unwilling to make any public commitment before establishing a clear pathway to delivery. Science Based Targets and the EV100 electric mobility initiative were discussed with **Royal Mail Group**. As owners of the largest corporate fleet in the UK, they are considering EVs but are still at trial stage. ShareAction met with Head of Environment at **GSK** to discuss RE100, following an investor letter in mid-2017. GSK operate through 170 subsidiary companies therefore RE100 is challenging ambition. GSK are currently working on a new package of responsible business targets, including environmental targets.
  Japanese companies **Fujitsu**, **Envipro Holdings** and **Marui Group** have joined RE100. Japan is considered an extremely difficult market for companies to source renewables and is the only G7 nation adding to its domestic coal power generation capacity, with roughly 45 new coal plants now in the pipeline. Leading Japanese companies, however, are looking to the future and taking direct action through their own purchasing decisions. In just over a year 10 Japanese companies have committed to 100% renewable electricity through RE100. These companies such as **Ricoh** (electronics), **AEON Group** (retail), **Daiwa House** (construction) and **Fujitsu** (I.T.) are leading the way with their 100% renewable electricity goals. Interestingly it is not only businesses in Japan that have shown their support for renewables, both the Japanese Ministry of Environment and the Ministry of Foreign Affairs have committed their departments – including all their global embassies – to 100% renewable electricity and have offered to act as ambassadors for the RE100 initiative.

- **ShareAction** provided a progress report on the **Living Wage** collaborative initiative. There are currently 36 accredited companies in the FTSE 100 and a further 10 which state they are compliant with the Living Wage for all of their operations, but are not yet accredited. **Croda International** and **Intertek** accredited with the Living Wage Foundation in quarter 2. The role of investors in driving progress on the Living Wage has been significant. Positive steps forward in dialogue with companies across the FTSE100 continues to develop as a result of engagement by the initiative. In addition to progressing active dialogue through one-to-one meetings and AGM questions, investors jointly sent letters to 6 companies in quarter 2: B&M European Value Retail, Capita, Galliford Try, Halfords, Kier Group and Millennium & Copthorne Hotels. International Consolidated Airlines Group (IAG) remains the only FTSE100 unwilling to engage on the Living Wage. ShareAction is currently working on the development of a programme aiming to address wider UK workforce practices building on Living Wage engagements to encourage companies both within the FSTE100 and FTSE250 to accredit as Living Wage employers.

- In June the **Institutional Investors Group on Climate Change** (IIGCC) published their **2018 Global Investor Statement to Governments on Climate Change.** The statement signed by 319 investors representing more than USD $28 trillion in assets was sent to the leaders of the Group of 7 nations (Canada, France, Germany, Japan, Italy, the U.K. and the U.S.) in advance of the G7 Summit on 8-9 June 2018. The statement reiterated investor support for the Paris Agreement and urged all governments to implement the actions that are needed to achieve the goals of the Agreement, with the utmost urgency. The statement calls on governments to:
    - Achieve the Paris Agreement's goals;
    - Accelerate private sector investment into the low carbon transition; and
    - Commit to improve climate-related financial reporting.

  The statement will also form the basis of future engagements with governments at the next Global Climate Action Summit, the G20 Summit, and COP24. The investor statement can be found at http://www.iigcc.org/files/publication-files/GISGCC_FINAL_for_G7_with_signatories__update_4_June.pdf

- In April, as part a global coalition of 250 institutional investors representing over $4.5 trillion in managed assets, the Fund co-signed a statement marking the five-year anniversary of the collapse of the Rana Plaza Building in Bangladesh. The statement highlights the success of the **Bangladesh Accord on Fire and Building Safety** which symbolizes what can be accomplished when brands use their collective leverage to resolve supply chain concerns. An unprecedented 220 brands and retailers joined the Accord for Fire and Building Safety signed in 2013, to use their leverage with supplier factories to conduct rigorous fire, electrical and building inspections. These inspections have resulted in remediation plans that have provided a safer working environment for the 2.5m workers in Accord factories. The 5-year agreement, now extended for an additional 3 years, is legally binding and has a unique governance structure which includes a steering committee made up of an equal number of brand and union representatives, with a neutral chair from the International Labor Organization. The Accord has provided in-depth health and safety training to personnel in 846 factories, and has investigated and resolved 183 worker complaints. While investors are pleased with progress made by the Accord, the statement emphasizes that the job of remediating all the issues is far from done and will continue to urge those companies that have not signed on to the 2018 Accord and its three-year extension to do so. The press release and the investor statement with signatories listed can be found at https://www.iccr.org/investor-statement-5th-anniversary-rana-plaza-disaster

Appendix 10

Other developments during the quarter to 30th June 2018

- In May the Fund's engagement overlay provider, **GES** launched a new engagement initiative, **Labour Rights in Food Supply Chains**. The 2017 International Labour Organisation (ILO) report, Global Estimates of Child Labor estimated the number of child labourers globally at 152 million, of which more than 70 per cent were found in agriculture. This makes it particularly relevant for the food industry to combat. The 2017 ILO report Global Estimates of Modern Slavery estimated that 25 million people could be classified as 'forced labour' globally, and 11 per cent of forced labourers were found in the agricultural and fishing sector. GES has identified five food commodities connected with some of the most elevated labour rights risks overall. These are coffee, rice, sugar, tea, and tomatoes. The objective is to improve companies' preparedness to address risks of child labour and forced labour in their supply chains, as well as to remediate other potential adverse labour rights impacts. In the engagement, specific emphasis will be to push for living incomes for agricultural workers and smallholders. Approximately 20 food and beverage producers as well as food retailing companies will be targeting by this engagement.

- In March the Fund responded to a request for information from the **House of Commons Environmental Audit Committee** regarding their inquiry into Green Finance. In a letter to the Convener of Fund the Chair of the Committee explained how the Environmental Audit Committee was "examining how the UK can mobilise the investment necessary to meet climate change targets and factor sustainability into financial decision making." As part of the inquiry the Committee was writing to the 27 largest UK pension funds responsible for some £550bn of long term investments in order to understand the strategic response of large investors to known environmental risks such as climate change. In particular the Committee was seeking to understand how the recommendations of the Financial Stability Board's Task Force on Climate Related Disclosures (TFCD), recently endorsed by the UK Government, should be implemented.

  In May the Environmental Audit Committee released its report **Greening Finance: embedding sustainability in financial decision making**. The report reflected on the responses received from the 27 UK pension funds and concluded these investors fell into three broad categories: more engaged, engaged and less engaged. Strathclyde Pension Fund was identified as one of the 12 'more engaged' funds. It is apparent from the responses of the 'more engaged' group of pension funds to the Committee's letter that significant progress is being made by some pension funds. According to the report "the 'more engaged' group had clearly identified climate change as a long-term risk (and opportunity), often some years ago, and were actively managing it. This group tended to demonstrate a strong sense of organisational purpose. Although the funds manage multiple risks, climate change was identified as particularly challenging and in need of specific attention as a long-term threat to beneficiaries' pensions." The full report is available at:
  https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/1063/1063.pdf

Appendix 10

Other developments during the quarter to 30th June 2018

- An important part of the Fund's active ownership is litigation aimed at companies whose illegal activities have resulted in financial losses. The Fund would prefer to resolve disputes without resorting to litigation, however in certain circumstances this is unavoidable and necessary to obtain damages and to promote good corporate governance and sound business practices. Legal proceedings can be brought in various ways. The main forms are direct action, i.e. bringing independent legal proceedings against a company, or a form of collective action such as a class action in the United States.

  The Fund frequently holds securities that are the subject of individual and class action securities litigation and has recovered over US$8m since 2007 including individual settlements against Countrywide Financial Corporation for US$1.1m and the Royal Bank of Scotland Group for £1.2m. The Fund currently also serves as lead plaintiff in US class actions against **PlyGem Holdings Inc**. and **Tailored Brands Inc**.